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Tanzania Country report

For the SADC-DFRC 3P



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1 Overall evaluation of Tanzania's readiness for PPPs

1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six ('6') broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three ('3') countries, namely , Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

On the country visit we meet with the Commissioner of Public-Private Partnerships Dr. Frank M. Mhilu and two other members of the PPP Unit, Mr. Mlay and Mr. Mayiku.

We also discussed the country readiness and investment appetite for large scale infrastructure projects with some of the financial institutions based in Dar es Salaam (HSBC, Stanbic and Bank M).

Each sub-category was rated either one ('1'), two ('2'), three ('3') or four ('4') based on the indicators from various reputable sources. Where one ('1') and two ('2') refers to "Developing towards PPP readiness" and three ('3') and four ('4') indicates a "Maturing level of PPP readiness". Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

1.2 Attractiveness of the member countries

Attractiveness of the member country	Source of information	Findings
GDP % growth for last 3 years	World Bank data used for 2011	6.40%
Actual GDP in numbers (size of economy), current USD\$	World Bank data used for 2011	23 874 165 048
Lending Interest rates	World Bank data used for 2011	15
Inflation rate	www.tradingeconomics.com/country-list/inflation-rate	9.40%

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Credit Rating	Country Visit	Not available
Political Stable and Absence of Violence (rating of 0 to 100)	Country Visit	46.7
Macro-Economic Environment (score 1 to 7)	Country Visit	4.12

Attractiveness of Tanzania, overall result is a two ('2')

Tanzania has achieved strong and consistent economic growth rates over the last three years (average 6.40%) albeit off a low base of per capita GDP of USD1,600. The country's GDP is USD23,874 billion. There is no sovereign credit rating at present. This analysis results in an overall value of two ('2'), Tanzania is thus considered "developing" in terms of this category

1.3 Availability of domestic capital and debt funding

Availability of domestic capital and debt funding	Source of information	Findings
Number of banks	Country Visit	40
Number of equity investment funds	Country Visit	0
Number of pension funds	Country Visit	6
3 year history of bond issuance	Country Visit	<p>There is a good track record of bonds issuance, both from Government level and Corporate level. Last year the Government issued a USD 700m Treasury Bond; there are plans for a new bond issue this year in the range of USD 500m. The Government is in the process of obtaining credit rating for the country, after which a Eur 1.4bn bond will be issued.</p> <p>Most of the banks have been issuing corporate bonds (3y,7y), both dollar and shilling denominated.</p>
Assessment of available capital (local) for investment	Country Visit	<p>There is also private financing available; mostly coming from commercial Banks, DFI's and ECAS's based in China and India and sovereign funds from the Middle East. Furthermore, there are several local banks which range from large organisations like NMB and CRDB to smaller family houses like Bank M. On top of this there are large international banks like Barclays, Stanbic, HSBC, Standard Chartered who have appetite and capacity for these large transactions. We spoke with Stanbic and HSBC and both are confident there is debt capacity in the local market. Most of the local banks raise financing by issuing bonds, the same international local based banks can use their parent companies abroad (e.g. Standard Bank in SA, Standard Chartered in the UK, etc) and there is also a syndication market that can be easily reached, if required.</p> <p>As mentioned previously, the Government is considering to setup a state owned bank (together with an Infrastructure Facilitation Fund) with the aim of providing long term financing for projects (infrastructure and agriculture). The feedback</p>

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		<p>obtained from the meetings with the MoF and the banks is that there is appetite and capacity for local financing. Terms are usually not longer than 7 years, there is a 10 year bond which has the back up of AfDB.</p> <p>Concessional loans are also available from foreign governments (bilateral agreements) and other multilaterals (AfDB, World Bank, etc).</p>
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Availability of domestic capital and debt funding in Tanzania, overall result is a three ('3')

The debt market in Tanzania has grown in recent years with some 40 domestic and international banks present. Foreign-owned banks account for about 50% of the banking industry's total assets and the appetite for investment in infrastructure is good, given the successful bond issuance by banks and the presence of a syndication market.

There is a good track record of bonds issuance, both from Government level and corporate level. Last year the Government issued a USD 700m Treasury bond; there are plans for a new bond issue this year in the range of USD 500m. The Government is in the process of obtaining credit rating for the country, after which a Euro 1.4bn bond will be issued.

This analysis results in an overall value of three ('3'), Tanzania is thus considered "maturing" in terms of this category

1.4 Judicial system

Judicial system that contributes to effective commercial dispute resolution	Source of information	Findings
Enforcing Contracts (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	36
Rule of Law (rating of 0 to 100)	Governance indicator, World bank, 2011 data	34.3

We used the key indicator 'Enforcing Contracts' from Doing Business as it focuses on how public institutions function in the case of a commercial dispute¹. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

Judicial system of Tanzania, overall result is a two ('2')

Tanzania ranks 36th in enforceability of contracts and scored 34.3 out of 100 in application of the Rule of Law. This analysis results in an overall value of two ('2'), Tanzania is thus considered "developing" in terms of this category

1.5 Governance and decision making

¹ Doing Business 2013, the World Bank and IFC

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Governance and decision making in member country	Source of information	Findings
Institutions (score 1 to 7)	The Global Competitiveness Report 2012-2013, World Economic Forum (score 1 to 7, with 7 being the best)	3.62
Africa's Governance (score out of 100)	Ibrahim Index of African Governance (score out of 100)	59
Voice and accountability (rating of 0 to 100)	Governance indicator, World bank, 2011 data	45.5
Government effectiveness (rating of 0 to 100)	Governance indicator, World bank, 2011 data	36.5
Regulatory Quality (rating of 0 to 100)	Governance indicator, World bank, 2011 data	35.5
Control of Corruption (rating of 0 to 100)	Governance indicator, World bank, 2011 data	36

Governance and decision making of Tanzania, overall result is a two ('2')

Tanzania was given a rating of 59 out of 100 for governance by the Ibrahim Index of African Governance and a government effectiveness rating of 36.5. This analysis results in an overall value of two ('2'), Tanzania is thus considered "developing" in terms of this category.

1.6 Ease of doing business in the member country

Tanzania has a lot to be done in terms of improving the conditions to do business in the country. All the indicators show a big potential for development which will contribute to grow FDI and the investment in large scale projects.

Ease of doing business in the member country	Source of information	Findings
Starting a business (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	113
Dealing with Construction permits (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	174
Getting electricity (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	96
Register property (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	137
Getting credit (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	129
Protecting investors (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	100
Paying taxes (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	133
Trading across borders (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	122

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Resolving insolvency (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	129
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Ease of doing business in Tanzania, overall score is a one ('1')

Tanzania is 113th out of 185 countries in the world in terms of ease with which to start a business and is ranked 100th for protecting investors. It is 129th in terms of access to credit and 174th for the ease of dealing with construction permits. This analysis results in an overall value of one ('1'), Tanzania is thus considered "developing" in terms of this category

1.7 PPP environment in the member country

Enabling environment in the member country for PPPs	Source of information	Findings
Legal system enabling PPPs in the member country	Country Visit	
- Is there a presence/development of enabling legislation ie PPP Law/ regulations etc?	Country Visit	There is some legislation on PPPs which had been drafted considering the example of the SA PFMA Act. In 2010/11 the Tanzania Investment Centre (agency with direct report to the office of the Prime-Minister) drafted a framework for the development of PPPs. This has been passed as Law and the Investment Centre remains the custodian of the PPP Law. There have been some recent amendments and there are some regulations still to be approved (e.g. the creation and setting up of a PPP Facilitation Fund which is meant to assist on project funding for the development stages and finance other projects that are economically viable but not bankable. The PPP Law applies to every sector though there are specific guidelines for the oil and gas sector.
- Does a policy for private participation in the member country exist?	Country Visit	Private sector participation in large scale projects and infrastructure projects is regulated by the PPP Law and is strongly encouraged. The PPP Law defines the procurement process and specifies the way private sector can get involved (solicited and unsolicited bids and the process thereafter). Further the Tanzania Investment Centre is also responsible to empower local Tanzanian private players as most of the investments done so far come from foreign groups.

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<p>- Public Sector appetite/capacity and experience relating to PPPs in the member country</p>	<p>Country Visit</p>	<p>As mentioned in the first question, there is a strong political support for PPPs. In fact, Government knows the only way to expedite infrastructure delivery in the country is to engage with the private sector. Since local capacity is limited and public financing is not available for such an intensive capital programme, Government of Tanzania has decided to use the PPP model to achieve this goal. This is also a way for the project finance long term repayments to match the long term profile of most infrastructure projects.</p> <p>Besides people from the Ministry of Finance, in general there is not much awareness of what PPPs actually entail. In addition to this, there is also a need to build capacity and to train more public sector officials. Having said this, we can say there is appetite to develop knowledge and use further the PPP model as a procurement method.</p>
<p>Is there Political support for PPPs?</p>	<p>Country Visit</p>	
<p>- Is there a PPP focal point/ Unit in the member country?</p>	<p>Country Visit</p>	<p>Very shortly there will be a single PPP focal point. There is an initiative which intends to join the PPP Unit which is housed within the Ministry of Finance and the Tanzania Investment Centre (mentioned above). The new entity will report to the Ministry of Finance. The unit will be responsible to approve any project/initiative that involves a concession/privatization of a public asset or a process which involves the use of Government funds.</p>
<p>- Does an existing PPP track record in the member country exist?</p>	<p>Country Visit</p>	<p>Government of Tanzania has done a couple of PPP deals in the past 10 years (PPP defined on a broad definition). Unfortunately, these PPP transactions did not produce the expected results, mostly due to lack of preparation and experience. Examples of this are TRL (Tanzania Rail Limited), a partnership with an Indian company called Rites, and the IPTL (Independent Power Tanzania Limited) deal. Unsolicited bids coming mostly from China and India have been used quite extensively, without the necessary financial due diligence and consideration. This is the reason why the Government is very keen to have a structured approach for these large scale projects.</p>
<p>Private sector capacity, capability and appetite</p>	<p>Country Visit</p>	

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<p>- Are multiple firms active in the PPP market?</p>	<p>Country Visit</p>	<p>Most of the large infrastructure players have been active in the country. There is a huge investment coming from China and India, as well. To a lesser extent, you can see also other European, North American and Middle Eastern economic groups which have been targeting Tanzania infrastructure, power and mining opportunities. Since Tanzania is rich in natural resources - there is coal and uranium in the south of the country and offshore gas along the coast - there is a strong market appetite for these direct opportunities (large scale projects) but also there is a way to use natural resources (and its revenues) to further develop infrastructure in the country.</p>
<p>- Does capacity exist in the private sector?</p>	<p>Country Visit</p>	<p>There is enough capacity given the presence of huge international conglomerates. Since the country is open and exposed to international markets, it will be possible and straightforward to attract expertise and technical skills into the country.</p>

PPP environment in the Tanzania, overall score is a four ('4')

Tanzania has a PPP Law and the Tanzania Investment Centre, which reports to the Prime Minister, is the custodian thereof. Political support for private participation in infrastructure is strong given the massive infrastructure backlog and the limited public finance resources to reduce it.

There have been a number of PPP-type transactions in the country in the last 10 years that have not provided Value for Money, probably as a result of inadequate preparation and competition prior to conclusion. As a result the government wishes to adopt a more structured approach to PPPs and has adapted to the lessons learned.

There is an active foreign interest in the country particularly in infrastructure that makes the logistics of natural resource exploitation easier and cheaper.

This analysis results in an overall value of four ('4'), Tanzania is thus considered "maturing" in terms of this category

1.8 Observations

Our results are based on the most recent verifiable information available at time of the report. Reputable external sources were used where appropriate and fact based observations were made.

Without looking in detail at the Project list, the Head of the PPP Unit mentioned that from a country point of view, there will be a short list of 3-5 projects which they intend to use as pilot projects for this new wave of PPP projects. They will use the outcome and lessons learned from these 3 projects as a market experience for the other RIDMP STAP. Amongst the 3-5 projects are the following projects:

- Dar es Salaam Rapid Transport System (tender was out to procure advisors to perform the feasibility and procurement of the Project)
- Dar es Salaam – Chalinze road project
- Kinyerezi power plant project

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1.9 Conclusion

Based on our research, market insight and feedback obtained from the meeting held in Dar es Salaam on the 26th of June, we can say there is willingness and appetite to procure some of the large projects using the PPP procurement model.

There is a huge need to develop infrastructure in Tanzania. This has been appointed as one of the bottlenecks which can hamper growth in the country. Since Tanzania has natural resources (coal, uranium but mostly offshore gas), it is possible to structure projects in a commercial and viable way. Further, there is political pressure to deliver these projects. The Government knows this is the only way to grow, to achieve economic development and in that way improve the living standards of Tanzania's population.

The Government have taken considerable decisions and actions in the last few years. Evidence of this is the fact Tanzania has managed to obtain financial assistance from multilaterals (AfDB, WB, DFIs) and has been granted direct support from some European/North American countries (UK, Holland, Sweden, US, Canada). Donor funding has been also allocated to develop capacity within the public sector and across several state owned entities. Since infrastructure is by definition a long term business, it is critical to manage political/social expectations cautiously. There is pressure to increase local content and to have better wealth distribution.

As mentioned before, Government has also taken the decision of merging the two PPP entities, creating a single unit which will be housed within the Ministry of Finance. This should also and improve coordination of future PPP projects, at the same time smoothing and expediting the decision making process. No doubt the country is doing the right steps in order to deliver a huge and challenging infrastructure programme.

In terms of private sector capacity there are already some projects being implemented or even commissioned, however there is a concern regarding transparency and how these projects were awarded. The unsolicited approach has been used quite extensively and not always with the desirable outcomes. This fact reinforces the need for the Government to prepare and plan better these processes, increase training of its own people and getting the right structures in place.

It is widely accepted private sector will be involved and it seems the PPP model is ahead in terms of being the preferred form of procurement. In the first phase it is also expected these PPP projects will not require public funding nor depend on Government budgets. We will rather see an extensive use of project finance, ECA financing and other concessional financing schemes being structured. The combination of political support and investment and the scrutiny that comes from having financing coming from mature capital markets will be two critical drivers on achieving better outcomes from Public Private Partnerships.

Overall Tanzania is thus considered "maturing" in terms of this assessment.

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